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12 CHURCH OF SCIENTOLOGY INTERNATIONAL

13 UNITED STATES BANKRUPTCY COURT  
14 NORTHERN DISTRICT OF CALIFORNIA

15 In re

16 GERALD ARMSTRONG,

17 Debtor

18 CHURCH OF SCIENTOLOGY  
19 INTERNATIONAL, a California non-profit  
20 religious corporation,

21 Plaintiff,

22 v.

23 GERALD ARMSTRONG,

24 Defendant.

) CASE NO. 95-10911 aj

) Chapter 7

) Adv. No. 95-1164

) DECLARATION OF  
) LYNN R. FARNY

1 I, Lynn R. Farny, hereby declare:

2 1. I am over the age of 18 and have personal knowledge of the facts stated  
3 herein. If called upon to testify regarding these matters, I could and would competently  
4 testify thereto.

5 2. I am the corporate secretary of the Church of Scientology International ("the  
6 Church"), creditor herein, and an executive in CSI's Legal Affairs Department. I have  
7 worked in such an executive capacity for the Church since 1984. The Church is the Mother  
8 Church of the Scientology religion, and, as such, is responsible for the activities  
9 commensurate with such a role, including the ecclesiastical management of Churches,  
10 dissemination and propagation of the faith and defense of its activities, including external and  
11 legal affairs.

12 3. I have been a staff member of various Churches of Scientology since 1979  
13 and, prior to that, beginning in 1977, I did part-time paralegal work for the Church of  
14 Scientology of California ("CSC"), which preceded the Church as the Mother Church of the  
15 Scientology faith.

16 4. I am the person with primary responsibility for the Church's litigation with  
17 Gerald Armstrong. In this declaration, I will briefly outline the state court litigation, the  
18 judgment obtained by the Church and Armstrong's efforts to defraud this Court.

19 5. This bankruptcy action marks the end of years of effort by the Church to  
20 enforce a contract which it made with Armstrong in 1986, and pursuant to which Armstrong  
21 was paid \$800,000. The agreement was made to end ongoing litigation and achieve peace  
22 with Armstrong, an anti-Scientology litigant who created and encouraged litigation against  
23 the Church. The agreement has been determined to be valid and enforceable by three  
24 superior court judges, and by the California Court of Appeal. In those venues, the Church  
25 has now obtained a permanent injunction against Armstrong, and a judgment of \$300,000,  
26 plus costs and attorneys' fees not yet determined.

27 6. Although Armstrong engaged in wholesale violations of the settlement  
28 agreement prior to the issuance of the permanent injunction, since it was granted in October,



1 1995, the church is not aware of any new violations. The working injunction is very  
2 valuable to the Church, although it costs Armstrong's estate nothing - it creates the peace  
3 which we bargained for.

4 7. It is apparent to me, that Armstrong filed his petition in bankruptcy in an  
5 effort to avoid the state court litigation. However, Armstrong is not entitled to obtain a  
6 discharge in bankruptcy because he failed to disclose all his assets in his bankruptcy petition.  
7 Further, Armstrong is also not entitled to a discharge because he has not satisfactorily  
8 explained how he dissipated, in a few short years, all of his assets, including the hundreds of  
9 thousands of dollars which he received from the 1986 settlement. Perhaps most importantly,  
10 regardless of whether or not Armstrong's debts are dischargeable in bankruptcy, the  
11 Church's permanent injunction, which does not require Armstrong to pay any money to the  
12 Church or anyone else, is not dischargeable at all.

13 8. The facts critical to the state court judgment have already been adjudicated by  
14 the California state courts, and thus are not in dispute here. In brief, they are as follows:

15 a. Gerald Armstrong is a former Scientologist, critical of his former  
16 faith, who left the Scientology religion nearly 14 years ago. After years of dispute,  
17 in which the Church attempted to recover confidential documents which Armstrong  
18 had stolen, and in which Armstrong became an anti-Scientology witness-for-hire and  
19 paralegal for other litigants or would-be litigants, the Church reached a settlement  
20 agreement with Armstrong in December, 1986. I am prepared to identify for the  
21 court a true and correct copy of that December, 1986 agreement ("the Agreement");

22 b. The Agreement was intended to create peace between the parties. It  
23 was part of a global settlement which included multiple clients of one of Armstrong's  
24 lawyers, Michael Flynn [Agreement, ¶3]. The Church agreed to provide a payment to  
25 Mr. Flynn for all of his clients, and Armstrong acknowledged that he received an  
26 amount from that payment which was agreed upon between Armstrong and Flynn  
27 [Id., ¶3]. The Church was not made privy to the amount which Armstrong received  
28 at the time of the settlement. However, discovery in the subsequent state case



1 disclosed that the amount distributed to Armstrong by Mr. Flynn was \$800,000, of  
2 which Armstrong testified he received \$518,000, after expenses and fees. The Church  
3 also provided Armstrong with a general release of all claims [Id., ¶ 5]. The Church  
4 has fulfilled each of its obligations under the contract;

5 c. Armstrong, in his turn, provided the Church with a general release of  
6 all claims [Id., ¶4], returned all of the materials which he had stolen [Id., ¶7E], and  
7 agreed not to provide any further opposition to the Church's appeal of its claim  
8 against him, which was then before the Court of Appeal [Id., ¶4B]. Because of  
9 Armstrong's long history as an intermeddler determined to create litigation against the  
10 Church, the Church also insisted -- and Armstrong agreed -- that Armstrong would  
11 refrain from providing voluntary assistance to other anti-Church litigants and  
12 claimants [Id., ¶10], and maintain confidentiality and silence concerning his claimed  
13 experiences with the Church [Id. ¶ 7D] (the "Non-disclosure Provisions");

14 d. The Agreement was only reached after many months of negotiation,  
15 during which Armstrong was represented by at least four attorneys: Michael Flynn,  
16 Bruce Bunch, Julia Dragovich, and Michael Walton. When Armstrong signed the  
17 Agreement, he did so on videotape, with his lawyer present. I am prepared to  
18 identify a true and correct copy of the videotape for the Court at trial, and to identify  
19 each of the persons in it. I am also prepared to identify a true and correct copy of  
20 the transcript of the videotape;

21 e. As can be seen on the videotape, when Armstrong signed the  
22 Agreement, he made multiple assurances to the Church and to the Church's attorney,  
23 Lawrence Heller:

24 MR HELLER: O.K. Ah, Mr. Armstrong, I'm going to ask you to sign  
25 three documents, ah, a Mutual Release of All Claims and Settlement  
26 Agreement, and two separate affidavits. Prior to doing so, however, I  
27 would like to ask you some questions with regard to those documents,  
28 um-hm, excuse me, which I would like you to answer freely and  
honestly, if you would. Ah, first of all, have you had a chance to, ah,  
completely and comprehensively review and read these documents?

ARMSTRONG: Yeah.



1 HELLER: O.K. Have you had a chance to discuss these documents with  
2 your attorney, Mr. Flynn?

3 ARMSTRONG: Yes.

4 HELLER: Has Mr. Flynn explained these documents as well as the legal  
5 and factual ramifications to you, legal and practical ramifications to you  
6 to your satisfaction?

7 ARMSTRONG: Uh, I think so, yes.

8 HELLER: O.K. Well, do you have any question of that whatsoever?

9 ARMSTRONG: No, I have no current questions about it.

10 HELLER: O.K. Very good. You are going to sign these of your own  
11 free will?

12 ARMSTRONG: Yes.

13 HELLER: O.K. You are not suffering from any duress or  
14 coercion which is compelling you to sign these documents?

15 ARMSTRONG: No.

16 HELLER: All right. You are not presently under the influence of alcohol  
17 or any medication, prescription or otherwise, which would impede your  
18 ability to comprehend the legal and factual intent of these documents?

19 ARMSTRONG: No.

20 As the videotape makes plain, Armstrong and his lawyer were laughing and joking as  
21 they executed the Agreement [Id.];

22 f. Armstrong has admitted that in August, 1990, unbeknownst to the  
23 Church, he "gave away" all of his assets, forgiving debts to friends totalling hundreds  
24 of thousands of dollars, and giving his house to his roommate and lawyer, Michael  
25 Walton. Most of his personal assets he transferred to a privately held corporation,  
26 the Gerald Armstrong Corporation, the stock in which he gave to some of his  
27 friends;<sup>1</sup>

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28 <sup>1</sup> The details of these transfers were revealed in discovery during litigation, and are  
provided to the Court in the form of Armstrong's admissions in deposition, testimony of  
some of his friends who were recipients of his largesse, and the documentary evidence of the  
transfers which was produced in the state case. This evidence is discussed in paragraphs 9 -  
13, below.

These admissions also formed the basis for a complaint against Armstrong, his



1           g. Not long after the 1990 transfers, Armstrong began breaching the non-  
2 disclosure provisions of the Agreement. When the Church asked him to stop,  
3 Armstrong informed us that he considered the Agreement to be unenforceable. He  
4 flatly refused to be constrained by the plain terms to which he had agreed in 1986, in  
5 exchange for \$800,000, but offered to stop breaching the Agreement if we would pay  
6 him additional money;

7           h. Rather than accede to Armstrong's demands for more money, the  
8 Church elected to bring a lawsuit against Armstrong for breach of contract, Church of  
9 Scientology International v. Gerald Armstrong, et al., Marin County Superior Court,  
10 Case No. 157680 (the "State Court Action").<sup>2</sup> In that suit, the Church obtained first  
11 a temporary restraining order, then a preliminary injunction,<sup>3</sup> and finally a permanent  
12 injunction, enforcing the key provisions of the Agreement;

13           i. The pendency of the litigation did not stop Armstrong from continuing  
14 to breach the Agreement, an activity which he vowed he would never stop, insisting  
15 that "no court can make me." The Church amended the complaint two times to add  
16 additional causes of action arising out of the new breaches Armstrong committed  
17 during the litigation;

18           j. The Agreement provided for liquidated damages, but only for breaches  
19

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20 attorney, Michael Walton (who received the house), and the corporation for fraudulent  
21 conveyance. That action is still pending in state court.

22 <sup>2</sup> The same case has also carried case numbers BC052395 (Los Angeles) and 152229  
23 (Marin). The Church first brought the action in Marin, where Armstrong resides. As one of  
24 his first delaying tactics, Armstrong sought and obtained a change of venue to Los Angeles.  
25 The first Marin court issued the temporary restraining order in March, 1992. The Los  
26 Angeles court issued a preliminary injunction in May, 1992. In September, 1995,  
27 Armstrong agreed to return the case to Marin County for trial, giving it the second, and  
28 final, Marin case number, described above. Under that identification, the court entered a  
permanent injunction and final judgment.

<sup>3</sup> Armstrong appealed the preliminary injunction, which was issued by the Honorable  
Ronald Sohigian of the Los Angeles Superior Court. The Second District Court of Appeal  
affirmed the preliminary injunction on May 16, 1994.



1 of paragraph 7(D) of the Agreement;<sup>4</sup>

2 k. On January 27, 1995, the Church sought and obtained summary  
3 adjudication of two of its claims for breach of contract which were compensable by  
4 liquidated damages, and was awarded \$100,000 against Armstrong by the Marin  
5 County Superior Court. In response to the Church's motion, Armstrong has filed 3  
6 inches of documentary exhibits and raised multiple defenses, arguing, inter alia, that  
7 the liquidated damages provision was invalid, the Agreement was coerced, the  
8 Agreement violated public policy or was illegal and hence void, and that triable issues  
9 of fact existed concerning whether or not his conduct breached the Agreement. The  
10 Honorable Gary W. Thomas found that Armstrong had failed to raise a triable issue  
11 of fact as to any of these issues, stating:

12 Defendant's own declaration shows he did not execute the  
13 agreement under duress in that it shows that he carefully weighed his  
14 options. (See Defendant's Exhibit 1, ¶10.) It certainly does not show  
15 that he did something against his will or had "no reasonable alternative to  
16 succumbing." (See In Re Marriage of Baltins (1989) 212 Cal.App.3d 66,  
84. In addition, Defendant is relying on the conduct of a third party  
(Flynn) to establish duress, yet he sets forth no fact or evidence in his  
separate statement showing that Plaintiff had reason to know of the  
duress. (See Leeper v. Beltrami (1959) 53 Cal.2d 195, 206.)

17 Defendant fails to raise a triable issue regarding obstruction of  
18 justice/suppression of evidence. The settlement agreement expressly does  
19 not prohibit Defendant from disclosing information pursuant to subpoena  
20 or other legal process. (See Plaintiff's Exhibit 1B, ¶H; Contrast with  
21 Pen. Code, §§ 136.1 and 138, Williamson v. Superior Court (1978) 21  
22 Cal.3d 829, People v. Pic'l (1982) 31 Cal.3d 731.) Nor is Plaintiff in  
23 this cause of action seeking to prohibit disclosure to government agencies  
conducting investigations pursuant to statutory obligations. (Contrast with  
Mary R. v. B. & R. Corp. (1983) 149 Cal.App.3d 308 and Allen v.  
Jordanos' Inc. (1975) 52 Cal.App.3d 160.) Even if a portion of the  
agreement could be construed to so prohibit (See, e.g., Plaintiff's Exhibit  
1B, ¶10), Plaintiff is not relying on that section. Nor has Defendant  
shown that the provision is so substantial as to render the entire contract

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25 <sup>4</sup> In Paragraph 7(D), Armstrong agreed not to create or help to create any media about  
26 Scientology, and that he would "maintain strict confidentiality and silence with respect to his  
27 experiences with the Church of Scientology and any knowledge of information he may have  
28 concerning the Church of Scientology, L. Ron Hubbard, or any of the organizations,  
individuals and entities listed [as Beneficiaries]. . . ." Other paragraphs, including those  
dealing with the provision of assistance to anti-Church claimants, have no liquidated damages  
provision.



1                   illegal. (Contrast with Allen, supra, 52 Cal.App.3d at 166.)....

2                   [Order of January 27, 1995, Exhibit A to Final Judgment]

3                   1.       Thereafter, the Church sought summary adjudication of six more claims  
4                   for liquidated damages, and of its Twentieth Cause of Action, for permanent  
5                   injunction. Armstrong sought and obtained 3 delays in the hearings on these motions.  
6                   After his last request for still another delay was denied, and on the day before the  
7                   Marin County Court was to issue its ruling on the pending motions, Armstrong filed a  
8                   petition for Chapter 7 bankruptcy;

9                   m.       On May 25, 1995, this Court granted the Church relief from automatic  
10                  stay to obtain a final adjudication of its pre-petition claims against Armstrong.  
11                  Accordingly, the Church renewed its summary adjudication motions. Although  
12                  Armstrong had previously responded to the motions, he re-hired his attorney, Ford  
13                  Greene, and did so again, this time filing over 14 inches of documents with the  
14                  Court, and arguing another 10 affirmative defenses;

15                  n.       After reviewing all of the evidence, on October 17, 1995, Judge  
16                  Thomas granted the Church's summary adjudication motions. Judge Thomas found,  
17                  first, that the Church was entitled to another \$200,000 in liquidated damages, finding  
18                  specifically that Armstrong had again raised no triable issue concerning the validity of  
19                  the liquidated damages clause, or of his claims of duress and fraud; that there was no  
20                  operative or implied reciprocal covenant restricting the Church, and that Armstrong  
21                  had contracted away his relevant First Amendment rights, ITT Telecom Products  
22                  Corp. v. Pooley, 214 Cal.App.3d 307, 319 (1989).

23                  o.       Next, Judge Thomas found that the Church was entitled to a permanent  
24                  injunction. First, the court found that

25                       1.       Plaintiff and defendant freely and voluntarily entered into a  
26                       Mutual Release of All Claims and Settlement Agreement ("Agreement")  
                          in December, 1986.

27                       2.       Plaintiff performed all of its obligations pursuant to the  
28                       Agreement.

                          3.       Defendant Armstrong received substantial consideration for



1 the promises which he made in the Agreement.

2 4. Since 1990, defendant Armstrong has repeatedly breached  
3 paragraphs 7(D), 7(E), 7(H), 7(G), 10, 18(D) and 20 of the Agreement.

4 [Order of Permanent Injunction, p. 2, Ex. C to Final Judgment]

5 p. Judge Thomas also made specific factual findings as to Armstrong's  
6 many breaches of the Agreement. He found that between 1991 and October, 1995,  
7 Armstrong had breached paragraphs 7(G), 7(H) and 10 of the Agreement by  
8 providing voluntary assistance, exclusive of testimony made pursuant to a valid  
9 subpoena, to 16 private individuals, each of whom was pressing a claim or engaged  
10 in litigation with the Church and/or one or more of the designated beneficiaries of  
11 the Agreement. Further, Judge Thomas found that between 1992 and October,  
12 1995, Armstrong had breached paragraph 7(D) of the Agreement by contacting  
13 media representatives, granting interviews, or otherwise discussing his claimed  
14 experiences in or with Scientology an additional 34 times [*Id.* at 2-6]

15 q. Further, Judge Thomas found that Armstrong intended to continue  
16 breaching the Agreement "unless he is ordered by the Court to cease and desist."  
17 [*Id.*, at 6]

18 r. Finally, the State Court applied California law to the factual findings,  
19 and determined that permanent injunction was necessary to prevent further  
20 irreparable harm to the Church:

21 Plaintiff's legal remedies are inadequate insofar as the scope of the  
22 relief ordered below is concerned. Tamarind Lithography Workshop, Inc.  
v. Sanders (1983) 143 Cal.App.3d 571, 577-578, 193 Cal.Rptr. 409, 413.

23 Accordingly, the Court finds that entry of a permanent injunction  
24 in this action is necessary in this action because pecuniary compensation  
25 could not afford the Church adequate relief, and the restraint is necessary  
26 in order to prevent a multiplicity of actions for breach of contract. Civil  
27 Code § 3422(1),(3).

28 [*Id.* at 6]

s. The Court then fashioned a narrow, negative injunction which  
prohibited Armstrong from taking any of the following actions in contravention of the



1 Agreement:<sup>5</sup>

2 1. Voluntarily assisting any person (not a governmental organ  
3 or entity) intending to make, intending to press, intending to arbitrate, or  
4 intending to litigate a claim, regarding such claim or regarding pressing,  
5 arbitrating, or litigating it, against any [of the Agreement's beneficiaries];

6 2. Voluntarily assisting any person (not a governmental organ or  
7 entity) defending a claim, intending to defend a claim, intending to defend  
8 an arbitration, or intending to defend any claim being pressed, made,  
9 arbitrated or litigated by any of the Beneficiaries, regarding such claim or  
10 regarding defending, arbitrating, or litigating against it;

11 3. Voluntarily assisting any person (not a governmental organ or  
12 entity) arbitrating or litigating adversely to any of the Beneficiaries;

13 4. Facilitating in any manner the creation, publication,  
14 broadcast, writing, filming audio recording, video recording, electronic  
15 recording or reproduction of any kind of any book, article, film, television  
16 program, radio program, treatment, declaration, screenplay or other literary,  
17 artistic or documentary work of any kind which discusses, refers to or  
18 mentions Scientology, the Church, and/or any of the Beneficiaries;

19 5. Discussing with anyone, not a member of Armstrong's  
20 immediate family or his attorney, Scientology, the Church, and/or any of the  
21 Beneficiaries;

22 [Id., at 7-8].<sup>6</sup>

23 t. On January 30, 1996, the Court issued an order of final judgment  
24 which incorporated these earlier summary adjudication orders, and which severed the  
25 fraudulent conveyance action, which is still stayed pending these proceedings. In  
26 addition, the Court declared that the Church was the prevailing party in the action,  
27 and awarded the Church attorneys' fees and costs, as provided in the Agreement.  
28 The Church will be submitting a cost bill to the state court in order to ascertain the  
amount of fees and costs thus awarded.

8. Since the permanent injunction was first entered on October 17, 1995, the  
Church is not aware of a single new break by Armstrong. Prior to the entry of the

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<sup>5</sup> The Court also ordered Armstrong to take a single affirmative act: to return to the Church, within 20 days, "any documents which he now has in his possession, custody or control which discuss or concern" the beneficiaries, other than documents which were filed in the litigation. [Id., p. 8] Armstrong has, thus far, refused to comply with this provision.

<sup>6</sup> Armstrong moved for reconsideration of this Order on December 1, 1995. His motion was denied.



1 injunction, he breached the agreement repeatedly, and even breached it during the week just  
2 prior to the hearing on the Church's motion for entry of a permanent injunction.

3 9. The Gerald Armstrong Corporation ("GAC") was incorporated by Armstrong  
4 in August, 1987. Armstrong was the sole incorporator, and he received all of the stock of  
5 the corporation. Armstrong has testified that he transferred his personal assets to GAC in  
6 exchange for 100% ownership of the stock, including art work, writings, and office  
7 equipment.

8 10. Armstrong has also testified that in 1990, he transferred still more of his cash  
9 and assets to GAC, including his VCR, tape recorder, futon, etc., and distributed ownership  
10 of his stock to some of his friends. His friends confirmed their receipt of stock certificates.  
11 However, the corporation continued to rent office space in San Anselmo, which also came to  
12 serve as Armstrong's living quarters. Armstrong remained the sole employee of GAC, and  
13 the sole signatory on its bank accounts.

14 11. Armstrong admitted that, by March of 1993, he had regained 80% ownership of  
15 GAC, in addition to the total control noted above.

16 12. Armstrong's estimates of the net worth of GAC have varied wildly. He has  
17 stated under oath that GAC possesses assets totalling \$1 million, in 1990, and between \$1  
18 and \$1.5 billion in 1993. Armstrong claimed to have had some of the assets appraised prior  
19 to August 1990, and that their appraised value at that time was \$900,000. At his  
20 examination by creditors in this action, he claimed that GAC owned nothing of any  
21 commercial value at all.

22 13. Armstrong did not list GAC on his bankruptcy petition at all. He has claimed  
23 assets totalling \$6,585, and claimed, falsely, to own no stock at all [Petition, Schedule B].

24 14. Armstrong and his friends have testified that just before Armstrong began  
25 breaching the Agreement, he divested himself of assets as follows:

26 a. Gave title of his home, valued at \$530,000, to Michael Walton,  
27 Armstrong's lawyer and roommate;

28 b. Forgave a debt owed by Walton of \$30,000;



1 c. Gave Walton furniture, a bank account with \$35,000 to \$40,000 and a  
2 share of stock in GAC;

3 d. Forgave a debt owed by Jerry Solfvin of \$16,000;

4 e. Forgave a debt owed by Iolna Dawson of \$30,000;

5 f. Forgave debts totalling \$70,000 - \$100,000 owed by Michael and Kima  
6 Douglas;

7 g. Forgave a debt owed by Andrew Armstrong of \$12,000; and

8 h. Gave all of his cash, home furnishings, and his car to his girlfriend  
9 Lorien Phippeny (a/k/a Bambi Sparks).

10 15. Armstrong has never attempted to revoke the Agreement, or to return the  
11 money which he accepted from the Church pursuant to the Agreement. Nor has he made  
12 any effort to pay to the Church any portion of the judgment which the Church has obtained  
13 against him. Surely, after all this time and expense, the Church is entitled to obtain the  
14 peace which Armstrong promised back in 1986.

15 Sworn to under the penalty of perjury this \_\_\_\_th day of February, 1996 at Los  
16 Angeles, California.

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19 \_\_\_\_\_  
20 Lynn R. Farny  
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